

Mike Winsor  
Montana State Auditor's Office  
840 Helena Avenue  
Helena MT 59601  
(406) 444-2040

Attorney for the Securities Department

**BEFORE THE COMMISSIONER OF SECURITIES AND INSURANCE  
OFFICE OF THE STATE AUDITOR  
STATE OF MONTANA**

<b>IN RE:</b>	)	
	)	Cause No. SEC-2009-38
<b>JPMORGAN CHASE &amp; CO.,</b>	)	
	)	<b>CONSENT AGREEMENT AND</b>
	)	<b>FINAL ORDER</b>
<b>Respondent.</b>	)	
_____	)	

CONSENT AGREEMENT dated this 7 day of July, 2009,  
between the Montana Securities Department ("Department"), acting pursuant to the authority of  
the Securities Act of Montana, Mont. Code Ann. § 30-10-101, *et seq.* and Mont. Code Ann. § 2-  
4-603, and JPMorgan.

WHEREAS, certain affiliates of JPMorgan Chase & Co. are dealers registered in the state  
of Montana; and

WHEREAS, an investigation into the activities of JPMorgan Chase & Co. and its  
subsidiaries and affiliates, including J.P. Morgan Securities Inc., Chase Investment Services  
Corporation, and Bear Stearns & Co. and affiliates, with the exception of WaMu Investments Inc.,  
which JPMorgan acquired on September 25, 2008 (hereinafter "JPMorgan") in connection with  
certain of its marketing and sale of auction rate securities practices during the period of  
approximately January 2006 through the present has been conducted under the auspices of a  
multistate task force; and

WHEREAS, JPMorgan has cooperated with regulators conducting the investigation by responding to inquiries, providing documentary evidence and other materials, and providing regulators with access to facts relating to the investigation; and

WHEREAS, JPMorgan has advised regulators that it desires to settle and resolve the investigations without admitting or denying the allegations set forth below; and

WHEREAS, JPMorgan agrees to take certain actions described herein and to make certain payments; and

WHEREAS, JPMorgan elects to permanently waive any right to a hearing and appeal under Mont. Code Ann. §§ 30-10-305, 30-10-308 with respect to this Consent Agreement and Final Order;

NOW, THEREFORE, the Commissioner of Securities as administrator of the Securities Act of Montana, Mont. Code Ann. § 30-10-101, *et seq.*, hereby enters this Order.

## **I.**

### **FINDINGS OF FACT**

1. JPMorgan admits the jurisdiction of the Department, neither admits nor denies the Findings of Fact and Conclusions of Law contained in this Consent Agreement and Final Order, and consents to the entry of this Final Order by the Securities Commissioner.

2. Auction rate securities are financial instruments that include auction preferred shares of closed-end funds, municipal auction rate bonds, and student loan-backed auction rate bonds (collectively referred to herein as “ARS”). While ARS are all long-term instruments, one significant feature of ARS (which historically provided the potential for short-term liquidity) is the interest/dividend reset through periodic auctions. If an auction is successful (i.e., there are enough buyers for every ARS being offered for sale at the auction), investors are able to sell their

ARS on a short-term basis. If, however, auctions “fail” (i.e., there are not enough buyers for every ARS being offered for sale), investors may be required to hold all or some of their ARS until the next successful auction in order to liquidate their funds.

### **Marketing and Sales of ARS to Investors**

3. Although JPMorgan was aware of increasing strains in areas of the ARS market during the approximate six (6) months prior to the mass failure, JPMorgan failed to ensure that all of its registered representatives made appropriate disclosures to customers regarding the nature and risks of auction rate securities. Certain JPMorgan employees stated that auction rate securities were liquid, safe, short-term investments and did not highlight the risk that, in the event of a failed auction, the securities might become illiquid.

4. JPMorgan used the proprietary name, M-Stars or Municipal Short Term Auction Rate Securities, in marketing ARS. This could have led certain investors to conclude that ARS were short-term instruments. In fact, ARS were not simply “short-term” instruments. For example, certain student loan MSTARs had maturities in the year 2039 and full liquidity was only available at an auction if the auction was successful.

5. Starting in the Fall of 2007, demand for certain auction rate securities continued to erode and JPMorgan’s auction rate securities inventory grew significantly. JPMorgan did not discuss the increasing risks of owning or purchasing auction rate securities with all of its customers.

6. In February 2008, JPMorgan stopped uniformly supporting auctions for which it acted as the sole or lead broker. Without the benefit of support bids from broker-dealers, the auction rate securities market collapsed, leaving certain investors who had believed that these securities were liquid, safe, short-term investments appropriate for managing short-term cash needs, holding long-term securities that could not be sold at par value.

7. JPMorgan engaged in practices prohibited by the Montana Securities Act by engaging in prohibited business practices of a dealer pursuant to Mont. Code Ann. § 30-10-201(13)(k).

**Failure to Supervise Agents who Sold ARS**

8. JPMorgan did not provide all its sales or marketing staff with the training and information necessary to adequately explain these products or the mechanics of the auction process to their customers.

9. Not all of JPMorgan's registered associated persons were adequately educated in the ARS products they were selling.

10. JPMorgan failed to reasonably supervise all its employees, by among other things:

a. failing to provide adequate training to all its registered agents regarding ARS by, among other things:

i failing to provide to all of its registered agents timely and comprehensive sales and marketing literature regarding ARS and the mechanics of the auction process;

ii failing to provide to all of its registered agents all pertinent information concerning the ARS product;

iii failing to provide to all of its registered agents all pertinent information regarding the state of the market prior to the mass auction failures in mid-February, 2008; and

b. failing to review ARS transactions in accounts of certain customers who needed liquidity; and

c. failing to ensure that all its registered personnel were providing adequate information regarding ARS to its customers.

## **II.**

### **CONCLUSIONS OF LAW**

1. The State Auditor is the Commissioner of Securities pursuant to Mont. Code Ann. § 30-10-107.

2. The administration of the Securities Act of Montana, Mont. Code Ann., Title 30, Chapter 10, Parts 1-3, is under the supervision and control of the Commissioner pursuant to Mont. Code Ann. § 30-10-107.

3. The Securities Act of Montana shall be construed to protect investors, persons engaged in securities transactions, and the public interest according to Mont. Code Ann § 30-10-107.

4. The Commissioner and the Department have jurisdiction over this matter pursuant to Mont. Code Ann. § 30-10-107.

5. As described in the Findings of Fact above, JPMorgan failed to supervise all its agents and employees and engaged in other practices in violation of Mont. Code Ann. § 30-10-201(13)(k).

6. As a result, the Commissioner finds this Consent Agreement and the following relief appropriate, in the public interest, and consistent with the Securities Act of Montana.

### **III.**

#### **FINAL ORDER**

On the basis of the Findings of Fact, Conclusions of Law, and JPMorgan's consent to the entry of this Final Order,

**IT IS HEREBY ORDERED:**

1. Entry of this Final Order concludes the investigation by Department and any other action that the Department could commence under applicable Montana law on behalf of the state of Montana as it relates to JPMorgan, relating to certain sale and marketing of auction rate securities at JPMorgan; provided, however, that excluded from and not covered by this paragraph are any claims by the Department arising from or relating to violations of the provisions contained in this Final Order.

2. This Final Order is entered into solely for the purpose of resolving the referenced multistate investigation and is not intended to be used for any other purpose.

3. JPMorgan will CEASE AND DESIST from violating Mont. Code Ann. § 30-10-201(13)(k), and will comply with the Securities Act of Montana.

4. Within ten days of the date of this Final Order, JPMorgan shall pay the sum of \$47,344.49 to the State of Montana to be deposited into the general fund, and the sum of \$5,000 to be paid to the Investor Protection Trust for investor education on behalf of the state of Montana. This amount constitutes the state of Montana's proportionate share of the state settlement amount of \$25 Million Dollars (\$25,000,000.00).

5. The payment to the state of Montana shall be in the form of a certified or bank check payable to the State of Montana, sent to the State Auditor's Office, attention to Mike Winsor, 840 Helena Avenue, Helena, Montana 59601. The payment to the Investor Protection

Trust shall be in the form of a certified or bank check referencing this settlement, made out to Investor Protection Trust, sent to IPT, attention to Don Blandin, Suite 300, 919 Eighteenth Street NW, Washington DC 20006-5517.

6. In the event another state securities regulator determines not to accept the recommendation of the NASAA Task Force and does not enter into a settlement with JPMorgan that follows the terms of the Settlement Term Sheet signed by JPMorgan, the North American Securities Administrators' Association, and the state of Florida, Office of Financial Regulation, on August 14, 2008, the total amount of Montana's payment shall not be affected, and shall remain at \$52,344.49.

7. JPMorgan shall comply (and, to the extent the Settlement Term sheet described herein required action to be take prior to the date of this Final Order, has already complied) with the requirements of the Settlement Term Sheet executed August 14, 2008, which provides:

a. Individual Investors

As soon as practicable following the execution of the Settlement Term Sheet, JPMorgan will offer to buy back at par auction rate securities that since February 12, 2008, have not been auctioning from individual investors who purchased those auction rate securities from JPMorgan prior to February 12, 2008 ("Individual Investors"). For purposes of the Settlement, charities and small to medium-sized businesses with account values and household values up to \$10 million will also be treated as JPMorgan Individual Investors. The term Individual Investors does not include senior management of JPMorgan and its predecessors and JPMorgan financial advisors/registered representatives.

The buybacks will be completed no later than November 12, 2008.

JPMorgan will provide notice to customers of the settlement terms and JPMorgan will establish a dedicated telephone assistance line, with appropriate staff, to respond to questions from customers concerning the terms of the settlement.

b. Relief for Investors Who Sold Below Par

No later than November 12, 2008, any JPMorgan Individual Investor that JPMorgan can reasonably identify who sold auction rate securities below par between February 12, 2008, and announcement of the Settlement will be paid the difference between par and the price at which the investor sold the auction rate securities.

c. Consequential Damages Claims

No later than November 12, 2008, JPMorgan shall notify those JPMorgan clients who own auction rate securities, pursuant to the terms of the Settlement, that a public arbitrator (as defined by Section 12100(u) of the NASD Code of Arbitration Procedures for Customer Disputes, eff. April 16, 2007), under the auspices of FINRA, will be available for the exclusive purpose of arbitrating any JPMorgan Individual Investor's consequential-damages claim.

Arbitration shall be conducted by public arbitrators and JPMorgan will pay all applicable forum and filing fees. Any JPMorgan Individual Investors who choose to pursue such claims shall bear the burden of proving that they suffered consequential damages and that such damages were caused by investors' inability to access funds consisting of investors' auction rate securities holdings at JPMorgan. JPMorgan shall be able to defend itself against such claims; provided, however, that JPMorgan shall not contest in these arbitrations liability related to the sale of auction rate securities. Special or punitive damages shall not be available in the arbitration proceedings.



d. Institutional Investors

JPMorgan shall endeavor to continue to work with issuers and other interested parties, including regulatory and governmental entities, to expeditiously provide liquidity solutions for institutional investors not covered by paragraph 6.a. above, that continue to hold auction rate securities purchased from JPMorgan ("Institutional Investors").

Within 45 days of the end of each quarter beginning with a report covering the quarter ended December 31, 2008 (due on February 14, 2009), and continuing through and including a report covering the quarter ended December 31, 2009 (due on February 14, 2010), JPMorgan shall submit a quarterly written report detailing JPMorgan's progress with respect to its obligations pursuant to this Final Order and outlining the efforts in which JPMorgan has engaged and the results of those efforts with respect to JPMorgan's institutional investors' holdings in auction rate securities. JPMorgan shall confer with William F. Reilly, Bureau Chief, Bureau of Securities Regulation, of the state of Florida, Office of Financial Regulation, as the lead NASAA member on behalf of all the states, on a quarterly basis to discuss JPMorgan's progress to date. Such quarterly reports and conferences/meetings shall continue until the first quarter of 2010. Following every quarterly meeting, the state of Florida, Office of Financial Regulation, shall advise JPMorgan of any concerns regarding JPMorgan's progress in providing liquidity solutions for Institutional Investors and, in response, JPMorgan shall detail the steps that JPMorgan plans to implement to address such concerns. The reporting or meeting deadlines set forth above may be amended with written permission from the state of Florida, Office of Financial Regulation.

e. Relief for Municipal Issuers

JPMorgan shall refund underwriting fees JPMorgan has received from municipal auction rate issuers that issued such securities through JPMorgan in the initial primary market

between August 1, 2007, and February 12, 2008, and refinanced those securities through JPMorgan after February 12, 2008, through the date this Final Order is executed by JPMorgan.

f. In consideration of the Settlement

The Department will:

i. Terminate its investigation with respect to JPMorgan's marketing and sale of auction rate securities to Individual Investors defined in paragraph 6.a. above. However, nothing herein limits the ability of the Department in pursuing any investigation relating to any party other than JPMorgan.

ii. Refrain from taking legal action, excluding entry of this Final Order, against JPMorgan with respect to its institutional investors until November 12, 2008; the Department shall issue continuances of that period as it deems appropriate; and

iii. Accept payment of \$52,344.49 (\$47,344.49 to the state of Montana and \$5000 to the Investor Protection Trust on behalf of Montana) as its portion of the above-mentioned \$25 million penalty, to address all underlying conduct relating to the marketing and sale of auction rate securities. The Department will not seek additional monetary penalties from JPMorgan relating to such conduct.

8. If payment is not made by JPMorgan or if JPMorgan materially defaults in any of its obligations set forth in this Final Order and fails to cure such a default reasonably after ten (10) days notice from the Department, notwithstanding any other provision of Montana law, The Department may vacate this Final Order at its sole discretion and without opportunity for administrative hearing.

9. This Final Order is not intended to indicate that JPMorgan or any of its affiliates or current or former employees shall be subject to any disqualifications contained in the federal

securities law, the rules and regulations thereunder, the rules and regulations of self regulatory organizations, or various states' securities laws including any disqualifications from relying upon the registration exemptions or safe harbor provisions. In addition, this Final Order is not intended to form the basis for any such disqualifications.

10. Nothing herein shall preclude the state of Montana, its departments, agencies, boards, commissions, authorities, political subdivisions, and corporations (collectively "State Entities"), other than the Department and only to the extent set forth in paragraph 1 above, and the officers, agents, or employees of State Entities from asserting any claims, causes of action, or applications for compensatory, nominal and/or punitive damages, administrative, civil, criminal, or injunctive relief against JPMorgan in connection with certain marketing and sales practices of auction rate securities at JPMorgan.

11. Except in an action by the Department to enforce the obligations of JPMorgan in this Final Order, this Consent Agreement and Final Order may neither be deemed nor used as an admission of or evidence of any alleged fault, omission, or liability of JPMorgan in any civil, criminal, arbitration, or administrative proceeding in any court, administrative agency, or tribunal. For any person or entity not a party to this Final Order, this Final Order does not limit or create any private rights or remedies against JPMorgan including, without limitation with respect to the use of any e-mails or other documents of JPMorgan or of others concerning the marketing and/or sales of auction rate securities, limit or create liability of JPMorgan, or limit or create defenses of JPMorgan to any claims.

12. This Final Order shall not disqualify JPMorgan or any of its affiliates or current or former employees from any business that they otherwise are qualified or licensed to perform under applicable state law and is not intended to form the basis for any disqualification.

13. Any dispute related to this Final Order shall be construed and enforced in accordance with, and governed by, the laws of the state of Montana without regard to any choice of law principles.

14. Respondent, JPMorgan, through its execution of the Consent to this Final Order, voluntarily waives its right to a hearing on this matter and to judicial review of the Final Order under Mont. Code Ann. §§ 30-10-305, 30-10-308.

15. Respondent, JPMorgan, enters into this Final Order voluntarily and represents that no threats, offers, promises, or inducements of any kind have been made by the Department or any member, officer, employee, agent, or representative of the Department to induce JPMorgan to enter into this Final Order other than as set forth in this Final Order.

16. This Final Order shall be binding upon JPMorgan and its successors and assigns as well as to successors and assigns of relevant affiliates with respect to all conduct subject to the provisions above and all future obligations, responsibilities, undertakings, commitments, limitations, restrictions, events, and conditions.

Dated this 28<sup>th</sup> day of July, 2009.

BY ORDER OF MONICA J. LINDEEN  
Commissioner of Securities and Insurance

By:   
LYNNE EGAN  
Deputy Securities Commissioner

CONSENT TO ENTRY OF FINAL ORDER BY JPMORGAN

1. JPMorgan hereby acknowledges that it has been served with a copy of the foregoing Consent Agreement and Final Order, has read the foregoing, is aware of its right to a hearing and appeal in this matter, and has waived the same.

2. JPMorgan admits the jurisdiction of the Department, neither admits nor denies the Findings of Fact and Conclusions of Law contained in the foregoing Consent Agreement and Final Order, and consents to entry of this Final Order by the Department as settlement of the issues contained in the foregoing Consent Agreement and Final Order.

3. JPMorgan agrees that it shall not claim, assert, or apply for a tax deduction or tax credit with regard to any state, federal, or local tax for any administrative monetary penalty that JPMorgan shall pay pursuant to this Final Order.

4. JPMorgan states that no promise of any kind or nature whatsoever that is not reflected in this Consent Agreement and Final Order was made to it to induce it to enter into this Consent Agreement and Final Order and that it has entered into this Consent Agreement and Final Order voluntarily.

5. Lawrence N. Chasen represents that he ~~is~~ is Senior Vice President & Assoc. Gen. Counsel of JPMorgan and that, as such, has been authorized by JPMorgan to enter into this Consent Agreement and Final Order for and on behalf of JPMorgan.

Dated this 17<sup>th</sup> day of July, 2009.

JPMORGAN

By

Its

Senior Vice President  
Associate General Counsel

STATE OF

New York

County of

New York : ss

SUBSCRIBED AND SWORN TO before me this 17<sup>th</sup> day of July, 2009 by

(Signature)

(Printed Name)

Notary Public for the State of

Residing at

My commission expires: